

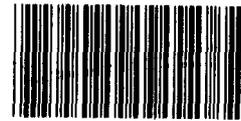
GAO

Report to the Acting Secretary of the
Army

September 1993

FINANCIAL MANAGEMENT

Army Lacks Accountability and Control Over Equipment



149993



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-253787

September 30, 1993

General Gordon R. Sullivan
Acting Secretary of the Army

Dear Mr. Secretary:

This report presents the results of our evaluation of the system and related internal controls for managing and maintaining accountability for Army equipment with a reported value of about \$117 billion as of September 30, 1992. Our assessment considered the reliability of the Continuing Balance System-Expanded (CBSX), the Army's central logistics system for reporting the types, quantities, and locations of equipment. We also reviewed the accuracy of equipment records maintained by individual Army units.¹ We performed this work in conjunction with our audit of the Army's consolidated financial statements for the fiscal year ending September 30, 1992, undertaken pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576).

Results in Brief

The Army did not maintain reliable information on the types, quantities, and locations of its equipment. Because this information is used for decisions regarding additional purchases, distribution of equipment to units, and deployment, readiness may be impaired and resources wasted. The reliability of the Army's information is suspect because CBSX balances for equipment items fluctuated for reasons that responsible officials could not explain, differed from records maintained by the units possessing equipment, and contained large amounts for equipment in-transit—some for extended time frames—between units. Many of these errors were caused by transactions which units incorrectly posted to CBSX or which they failed to post.

Even if the Army corrected the problems discussed above, it would still not have had accurate information on the type, quantity, and location of the Army's equipment because unit records, which are the source of CBSX balances, were also inaccurate. Unit records often did not reflect equipment quantities and types actually on hand because

- units did not record equipment promptly or accurately;

¹The term "units" encompasses all types of Army organizations in possession of equipment, including depots and storage sites.

- units did not complete physical counts that could have detected erroneous balances;
- Army regulations did not provide specific procedures to help ensure that data posted to unit level records were accurate; and
- measures to ensure that units complied with existing regulations had not been widely implemented.

As a result, the readiness of personnel and weapons systems may be impaired and the units had no assurance that equipment was protected from loss or was being used only as authorized.

Background

CBSX, operated and maintained by the Systems Integration and Management Activity (SIMA), is the Army's consolidated equipment reporting and accounting system. As of September 30, 1992, CBSX contained information on 14.8 million individual equipment items valued at \$117 billion and representing 10,287 types of equipment located at 9,825 units worldwide. CBSX includes type, location, and quantity data for equipment at units and in transit. CBSX does not contain information for missiles, ammunition, or classified communication security equipment.

Equipment is held by various types of Army units, including divisions subject to deployment, depots that repair or upgrade equipment, and storage sites. Army regulations require all types of units to maintain accurate equipment records and ensure that those records agree with CBSX. To ensure that unit equipment records are accurate, Army regulations require units to perform periodic physical counts to detect and correct any errors in the records. Units periodically transmit their equipment transactions to SIMA to update CBSX. After running various edits to detect common types of errors, SIMA posts the unit-submitted transactions to update CBSX.

National Inventory Control Points (NICPS) consider CBSX equipment balances in determining the numbers of many major and secondary items to acquire. A major item, such as a personnel carrier, is a final combination of parts and materiel ready for its ultimate use. A secondary item is a component of a major item, such as a transmission. If CBSX equipment balances are overstated, the Army may procure too few major and secondary items, possibly resulting in reduced readiness. If CBSX equipment balances are understated, the Army may procure too many major and secondary items, potentially creating excess and wasting

financial resources that could have been otherwise used to maintain and improve readiness.

Similarly, inaccuracies can affect the Army's ability to efficiently distribute its equipment. If a requisitioning unit's CBSX balance is overstated, the NICP will reject the unit's requisition. Consequently, the unit will not obtain authorized equipment and, if the equipment is important to the unit, its readiness could be adversely affected. On the other hand, if the unit's CBSX equipment balance is understated, the NICP will validate a requisition that should have been rejected. Thus, the unit will obtain excess equipment that could have been provided to another unit with an actual shortage.

Objective, Scope, and Methodology

The primary objective of this review was to determine whether CBSX and unit equipment records accurately account for the types, quantities, and locations of the Army's equipment.

To determine whether CBSX and unit equipment records accurately reflected the types, quantities, and locations of the Army's equipment, we reviewed "compatibility reports" from SIMA, which quantify the extent to which CBSX agrees with unit records. We also reviewed CBSX Armywide balances of various types of equipment over a period of several months to identify unusual changes, and we examined the balance of equipment items in transit from one unit to another. Additionally, we obtained the results of physical counts performed by the Army Audit Agency and the Army Materiel Command. Further, we interviewed officials from the Office of the Deputy Chief of Staff for Logistics, the Army Materiel Command, SIMA, NICP, the 1st Cavalry Division, the 24th Infantry Division-Mechanized, and the V Corps.

We conducted our review between July 1992 and April 1993 in accordance with generally accepted government auditing standards. Appendix II presents the primary locations where we performed our audit. The Department of Defense (DOD) provided written comments on a draft of this report. Their comments are discussed in the "Agency Comments and Our Evaluation" section and are reprinted in appendix I.

CBSX Did Not Accurately Account for Army Equipment

CBSX did not fulfill its intended role as the Army's consolidated equipment reporting system. During the recent deployment to Southwest Asia, inaccurate CBSX data impaired the Army's ability to monitor equipment needed to carry out its mission. Unexplained fluctuations in its balances

demonstrate the unreliability of reported totals. Transactions for equipment in transit between Army units remained on CBSX records for extended periods and might be overstated. Large differences exist between CBSX and the unit records which support it. Many of these problems were caused by units incorrectly posting transactions to CBSX or not posting transactions to CBSX.

Inaccurate CBSX Data Did Not Support Deployment

Army regulations include provisions that relax certain specified reporting and accountability requirements for equipment during war. However, according to Army officials, most units that deployed to Southwest Asia apparently misinterpreted these regulations and simply suspended all CBSX reporting procedures. As units obtained equipment from—or exchanged equipment with—other units in preparation for deployment or in theater, information on the locations, types, or quantities of their equipment were not entered into CBSX. This severely hampered the Army's ability to monitor both major and secondary items.

A January 1992 Army Materiel Command Lessons Learned report confirmed that inaccurate CBSX data caused significant problems in major items management. First, inaccurate CBSX data hampered equipment distribution decisions. Many deploying and deployed units requested, and often were issued, quantities of major end items that were two to three times their authorizations. Second, inaccurate CBSX data resulted in delays in the distribution of major items to units that did not deploy to Southwest Asia because the Army was unsure whether deployed units' requirements were met. As a result, the readiness of units that did not deploy was seriously diminished. Third, the lack of reliable CBSX data significantly affected NCP efforts to identify types of major items that required accelerated procurement because they were quickly used or depleted during war.

Inaccurate CBSX data also caused significant problems in secondary item management, according to the same Army Materiel Command report. For instance, CBSX major item inaccuracies made forecasts of secondary items needed to support the forces seriously inaccurate. Additionally, the Army had to develop sustainment packages² based on inaccurate CBSX data. As a result, the Army projected secondary item demand for some weapons systems that had not been deployed and did not project demand for others that had been deployed.

²Sustainment packages are collections of secondary items necessary to support major items during deployment.

CBSX Armywide Equipment Balances Fluctuate

CBSX reports showed extensive fluctuations in unit reporting that did not seem to be driven by equipment transactions. According to Army officials, balances for some items, such as those under long-term procurement contracts, can be expected to consistently increase over time, while balances for items being retired or used in foreign military sales can be expected to consistently decrease over time. Additionally, balances for items that are not being procured or sold should remain constant. As shown in table 1, however, CBSX Armywide balances for some types of equipment items fluctuated upward and downward, contrary to expectations.

Table 1: Unexplained Fluctuations in Selected CBSX Balances

Equipment	Balances as of		
	July 31, 1992	September 30, 1992	October 31, 1992
M1062 Trailer	455	1,157	659
M1A1 120MM Combat Tank	4,370	3,995	4,061
G11B Cargo Parachute	12,732	12,270	12,804
M332 Ammunition Trailer	5,965	6,015	5,631
MKT-90 Field Kitchen	1,126	1,054	1,298

We discussed these fluctuating balances with the NICP officials responsible for managing this equipment. They could not provide specific reasons for the fluctuations but said that they probably resulted from unit reporting errors. These unexplained fluctuations diminish the reliability of totals reported in CBSX.

CBSX Contains Erroneous In-Transit Balances

As of December 3, 1992, CBSX reported that 610,358 individual equipment items recorded as worth \$5.2 billion were in transit. According to Army officials, several factors are responsible for the amount of in-transit equipment, including redeployment from Southwest Asia, the elimination of Army units due to downsizing, changes in the Army's force structure, force modernization, and units sending equipment to depots for repair or upgrades.

However, CBSX's reported balances may significantly misstate the amount of in-transit equipment. According to our review of 62 judgmentally selected in-transit transactions involving equipment destined for Fort Hood and Fort Stewart, 39 (or 63 percent) of the transactions were erroneous. For example, units at Fort Hood that were sending equipment to other units posted in-transit transactions indicating that they were both

the shipping and receiving unit. Additionally, our analysis of the December 3, 1992, CBSX in-transit files showed that 92,319 in-transit transactions valued at \$1.7 billion were over 6 months old and some dated back to 1990. According to Army officials, in-transit equipment transactions over 6 months old are, in most cases, erroneous because units normally receive equipment within that period of time. They also told us that no controls exist to require that old in-transit items be researched to confirm whether they are valid or should be deleted.

Erroneous in-transit equipment balances can impair a unit's ability to obtain authorized equipment. CBSX adds equipment being shipped to the receiving unit's equipment balance. This control ensures that units cannot requisition additional items if unit balances plus equipment enroute equal their authorized levels. However, if the equipment is not really in-transit, the unit could be unable to obtain authorized equipment needed to maintain readiness.

Periodic Comparisons of CBSX to Unit Records Revealed Large Differences

SIMA periodically compares unit equipment records to CBSX and adjusts CBSX to agree with the unit records. During the comparison and adjustment process, SIMA measures the extent to which CBSX and the unit records agree, or are compatible. Our analysis of SIMA's comparison, completed in November 1992, showed that CBSX differed from unit equipment records in the cases of 1,307,640 individual items valued at about \$7 billion. For example, one unit's equipment records indicated 220 more tanks than CBSX reported. Based on the extent of adjustments required to make CBSX agree with unit records, SIMA computed an Armywide compatibility rate of about 90 percent.

However, the compatibility rate formula considers only differences between CBSX and unit equipment records. It does not consider (1) erroneous in-transit transactions or (2) differences between unit equipment records and actual on hand quantities, discussed below, both of which would have lowered the rate. Therefore, CBSX may be more inaccurate than the Armywide compatibility rate indicated. Even as measured by the Army's compatibility formula, however, the 90-percent Armywide compatibility rate indicated twice the number of errors envisioned by the Army's 95-percent goal.³

³After we completed our audit work, Army officials informed us that the Armywide CBSX compatibility rate had risen but still did not meet the Army's 95-percent goal. The Army officials stated that part of the increase resulted from a change in the way SIMA computes the compatibility rate.

Incomplete and Inaccurate Transactions Caused CBSX Inaccuracies

Because units are the major source of input, they play a key role in CBSX data accuracy. Units posting incomplete and inaccurate transactions caused CBSX to differ from unit equipment records. In one instance, a V Corps unit's equipment balance differed significantly from CBSX because from May through October 1992, it did not submit hundreds of transactions to CBSX that it recorded on its unit records. If a unit posts erroneous data to CBSX, such as an incorrect identification code, CBSX will reject the transaction if the code is invalid. If, however, the code is valid for another unit, the transaction will be posted to that unit's CBSX records. For example, one V Corps unit posted 18 advanced attack helicopters to CBSX using an invalid identification code. CBSX rejected the transaction, resulting in a difference between the unit's records and CBSX. In another instance, the Texas National Guard inadvertently cited the Missouri National Guard's identification code to record 220 tanks. Consequently, CBSX had incorrect equipment balances for both units.

The amount of command emphasis can influence the completeness and accuracy of unit posting to CBSX. According to Army officials we interviewed, some units' compatibility rates were low because they could not accurately post all of the increased number of equipment transactions resulting from redeployment from Southwest Asia. They pointed out that while the redeployment was ending in 1992, the Army's compatibility rate rose from 86.7 to 90.1 percent. Other Army officials, however, stated that unit compatibility rates depended primarily on the priority unit commanders gave to accurate CBSX reporting, not on the volume of transactions or the unit's deployment status.

Although CBSX had twice the number of errors that the Army's 95-percent compatibility rate would allow, the Office of the Deputy Chief of Staff for Logistics had not made accurate CBSX reporting one of its priorities at the time of our review. The Office did not include it as a special interest item in the Command Logistics Review Program, which evaluates and reports on key equipment issues in order to improve unit logistics management.

The Army Plans to Take Actions to Improve CBSX Accuracy

After being informed of problems we identified during our review, officials from the Office of the Deputy Chief of Staff for Logistics told us that they were initiating actions to improve CBSX accuracy. These actions included making CBSX reporting a special interest item in the Command Logistics Review Program. Additionally, the Army plans to revise existing regulations to address some of the causes of inaccurate in-transit equipment balances. Because the Army planned to initiate these actions

after our audit work was completed, we did not assess the implementation or effectiveness of the actions.

Unit Equipment Records Did Not Match Quantities and Types on Hand

We also found inaccuracies in unit equipment records, which are the basis for data sent to CBSX. Unit data often did not match the results of physical counts of equipment. This mismatch resulted from units not recording equipment transactions promptly or accurately. The inaccuracies were perpetuated because required physical counts, which could have corrected the records, were not carried out. Also, current regulations governing the recording of equipment transactions and conducting physical counts lacked specificity. Also, units had not implemented, or had only partially implemented, required mechanisms to ensure compliance with equipment regulations.

Unit Record Inaccuracies Worsen CBSX Problems and Pose Additional Risks

Inaccuracies in unit equipment records exacerbate errors in CBSX, because units are required to post the same transactions to CBSX and because CBSX is periodically adjusted to agree with unit records. As a result, unit record inaccuracies increase the risk of incorrect acquisition, distribution, and deployment decisions.

Also, equipment that is incorrectly recorded on units' records or recorded items which cannot be found may impair weapon and personnel system readiness. If equipment is not recorded on unit records, the risk of undetected loss and unauthorized use increases.

Physical Counts Consistently Revealed Unit Equipment Record Inaccuracies

Equipment records at depots, storage sites, and other Army units did not accurately reflect on-hand equipment quantities. The Army Materiel Command compared a physical count of 186 on-hand equipment quantities at 18 depots to those depots' September 30, 1992, equipment records. They found that those records did not agree with the results of their physical counts in 64 of the 186 cases (34.4 percent), resulting in a gross misstatement in the sample of over \$771 million. Types of equipment that could not be located or that were not recorded on depot records included tanks, rifles, and howitzers. Based on the Army Materiel Command's results for this statistical sample, we projected that the gross dollar value of the difference between the on-hand equipment quantities at the depots and the balances on the depots' equipment records was over \$1.2 billion.

Physical counts at other Army units also revealed inaccurate equipment records. In a December 1991 report, the Army Audit Agency cited inaccuracies in the equipment records of the 11 installations that it reviewed. Specifically, the agency found \$66 million of unrecorded equipment at 7 of the units and could not locate \$9 million of recorded equipment at 6 of the units. Separately, in July 1992, the agency completed a comparison of unit equipment records with a physical count of 122 types of equipment at three reserve storage sites at the 200th Theater Army Materiel Management Center, located in Germany. The unit equipment records agreed with the on-hand equipment quantities in only 68 percent of the cases. For the equipment items that disagreed with the unit records, more than two-thirds of the variances exceeded 10 percent.

Because of the frequently reported differences between unit equipment records and on-hand equipment quantities, since 1989 the Deputy Chief of Staff for Logistics has identified equipment accountability as a material internal control weakness in its Federal Managers' Financial Integrity Act statement to the Secretary of the Army. According to the statement, the Army lacks a process that provides comprehensive departmental level oversight on equipment accountability.

Units Did Not Record Equipment Promptly or Accurately

In December 1991, the Army Audit Agency reported that personnel at 11 installations were either not recording equipment transactions on their records or were not recording them promptly. Army regulations require units to record equipment within 3 working days of receipt. However, the agency found that equipment receipt transactions were being recorded as many as 89 days after receipt. During a separate July 1992 comparison of equipment at three reserve storage sites at the 200th Theater Army Materiel Management Center, the agency found that discrepancies resulted from delays in recording receipts and duplicate transactions. The Army Materiel Command found similar causes for discrepancies between depot equipment records and on-hand equipment quantities during its December 1992 physical count of equipment located at 18 depots.

According to Army officials we interviewed, equipment is sometimes recorded inaccurately because different models of equipment are similar in appearance. For example, NICP managers responsible for the M2A1 and M2A2 Bradley fighting vehicles said that units mistake the two vehicles on their equipment records because they have similar exteriors. Likewise, NICP managers of the M113 series of personnel carriers stated that units

inaccurately recorded similar models of these vehicles on their equipment records.

In many cases, units recorded equipment inaccurately because Army regulations do not require units to closely inspect equipment upon receipt. Army regulations require units to check equipment to make sure it matches the description on the associated receipt document. However, the regulations do not specifically require units to compare the type of equipment indicated on equipment data plates to the type described on the receipt document. According to Army officials, specifically requiring such comparisons would reduce the likelihood that units would record received equipment inaccurately on their records.

Physical Counts Were Not Always Performed as Required

Army regulations require units to conduct annual physical counts of all equipment in their possession. The regulations allow units to satisfy this requirement by counting 10 percent of their equipment each month. The regulations also require each unit to prepare a memorandum documenting the date a physical count was conducted and its outcome. During a change of command, the outgoing and incoming unit commanders must jointly conduct a physical count of the unit's equipment.

If units identify discrepancies during their physical counts, Army regulations require that the units research the discrepancies, document them, and post the resulting corrections to their equipment records. During physical counts, units may identify several types of discrepancies. For example, one type of equipment may be recorded when, in fact, another type is on hand; recorded equipment may not be located or may have been damaged or destroyed; or equipment may be identified that was not previously recorded.

Some units were not performing required physical counts. At the V Corps, our review of 20 units revealed that only 2 had the required memoranda indicating that physical counts were conducted each month in fiscal year 1992 prior to the units' changes of command. One V Corps official acknowledged that some of the units did not have the required memoranda because the units had not performed the required physical counts. When one unit finally performed a physical count during its change of command, it had to prepare documentation for 187 items not previously recorded and 163 items recorded inaccurately. In a separate review, the Army Audit Agency found that over 50 percent of the physical

counts scheduled at three of the 200th Theater Army Materiel Management Center reserve storage sites during 1992 were not performed.

Even when physical counts were performed as required, they did not always identify unit equipment record errors because Army regulations are not sufficiently explicit to generate precise data. As with equipment receipt, Army regulations do not specifically require units to match equipment records with data plates during physical counts. As a result, units that did not record the correct type of equipment upon receipt did not always detect the error during subsequent physical counts. For example, during a physical count in April 1993, the 1st Cavalry Division identified one M35 and four M35A2 2-1/2 ton trucks that were recorded as M35A1 trucks on their equipment records. The trucks had been recorded in error for several years, and the error had not been detected during periodic or change of command physical counts.

Command Supply Discipline Program Was Not in Place

Even if the Army made these regulations more explicit, it had not adequately implemented a program to ensure that units had reliable equipment data. Army regulations require commanders to periodically evaluate their compliance with equipment regulations through the implementation of the Command Supply Discipline Program. The program's evaluations are designed to identify noncompliance with regulations and initiate prompt corrective action. In its report on fiscal year 1992 special interest items, the Logistics Evaluation Agency reported that the program's overall effectiveness is marginal. Our review of the program at the 1st Cavalry Division, the 24th Infantry Division-Mechanized, and the V Corps disclosed that these units did not comply or only partially complied with the program's requirements during fiscal year 1992. Because many commanders had not implemented the program, many units were not being evaluated and corrective action was not being taken to ensure correct unit equipment records.

Conclusions

The Army requires accurate information concerning the types, quantities, and locations of its equipment. Unless the accuracy of CBSX is improved, the Army faces an increased risk of inappropriate equipment acquisition, distribution, and deployment decisions. Despite the importance of CBSX and known problems, the Office of the Deputy Chief of Staff for Logistics had not placed accurate CBSX reporting among its highest priorities at the time of our review.

These data weaknesses will continue until the Army is able to modify its procedures and instill the discipline needed to have units accurately and promptly record equipment transactions. Inaccurate records diminish control over equipment and undermine the reliability of CBSX. They also increase the likelihood of undetected loss and unauthorized use of equipment and can impair readiness. Implementing the oversight program and improving the regulations governing the recording of equipment transactions and conducting physical counts are key measures to highlight the importance of unit equipment records.

Recommendations

To improve the Army's CBSX compatibility rate and the accuracy of unit equipment records, we recommend that the Acting Secretary of the Army

- require the Office of the Deputy Chief of Staff for Logistics to place CBSX accuracy, including unit compatibility rates and accounting for in-transit equipment balances, among the Command Logistics Review Program special interest items;
- revise regulations governing the recording of equipment transactions and physical count procedures to specifically require units to inspect equipment data plates to validate the type of equipment received and subsequently counted to ensure that equipment is recorded accurately and that errors are corrected during physical counts; and
- direct commanders to implement the Command Supply Discipline Program and to require corrective action when evaluations identify noncompliance with equipment regulations.

Agency Comments and Our Evaluation

DOD partially concurred with the findings and recommendations in our report. DOD agreed with our recommendation that CBSX compatibility rates and in-transit balances be added to the Command Logistics Review Program special interest items. However, the Department disagreed with the use of the phrase "accounting for in-transit equipment" in our recommendation. We disagree with the DOD statement that CBSX is not an accounting system. According to Army Regulation 710-3, the objective of CBSX is to "provide the Army with a single equipment accounting system for major items." This regulation also states that "CBSX uses transaction accounting to maintain auditable accountability."

DOD did not concur with our recommendation that the Army revise regulations governing the recording of equipment and subsequent physical counts to require units to review equipment data plates to validate

equipment type. According to DOD comments, Army guidance is sufficiently specific to ensure that units accurately record equipment upon receipt and subsequently perform thorough physical counts. Instead, DOD stated that compliance problems have led to the problems with the reliability of unit equipment records that were cited in this report. Our audit showed that neither the guidance cited in DOD's comments nor other Army guidance requires units to inspect data plates when equipment is received or periodically counted. Without such inspections, there is no assurance that unit records accurately reflect equipment on hand.

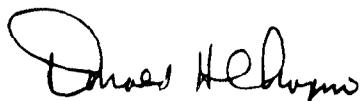
DOD concurred with our recommendation about implementing the Command Supply Discipline Program and stated that the Army plans to take specific actions to increase unit compliance with the program. DOD agreed that noncompliance had contributed to inaccurate unit records.

This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the Agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Secretary of Defense; the Acting Chief Financial Officer of the Department of Defense; the Director of the Office of Management and Budget; and the Chairmen and Ranking Minority Members of the House and Senate Armed Services Committees, the Senate Committee on Governmental Affairs, the House Committee on Government Operations, and the House and Senate Committees on Appropriations.

This report was prepared under the direction of David M. Connor, Director, Defense Financial Audits, who may be reached on (202) 512-9095 if you or your staff have any questions. Major contributors to this report are listed in appendix III.

Sincerely yours,



Donald H. Chapin
Assistant Comptroller General

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Abbreviations

CBSX	Continuing Balance System-Expanded
DOD	Department of Defense
GAO	General Accounting Office
NICP	National Inventory Control Point
SIMA	Systems Integration and Management Activity

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

(Management Systems)

AUG 5 1993

Mr. Donald H. Chapin
Assistant Comptroller General
Accounting and Financial
Management Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Chapin:

This is the Department of Defense (DoD) response to the General Accounting Office draft report, "FINANCIAL MANAGEMENT: Army Lacks Accountability and Control Over Equipment," dated June 17, 1993 (GAO Code 918805), OSD Case 9276-C. The Department partially concurs with the GAO findings and the recommendations in the draft report.

During, and as a result of, the GAO review, the Army initiated plans to improve the accuracy of its equipment records. Those actions are continuing.

The report states that the Army did not maintain reliable information on the types, quantities, and locations of its equipment. The statement appears to be based on the accuracy of the Continuing Balance System-Expanded. The statement does not, however, acknowledge the existence of other equipment systems that maintain information on the types, quantities, and locations of Army equipment--and it characterizes all of the information in the System as unreliable, which is not accurate

See comment 1.

Additionally, the use of the term "inventory" throughout the draft report may be misleading. Equipment is not an inventory item. A more appropriate term would be "physical record count."

See comment 2.

The detailed DoD comments on the draft report are provided in the enclosure. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

Alvin Tucker
Deputy Comptroller
(Management Systems)

Enclosure

GAO DRAFT REPORT - DATED JUNE 17, 1993
(GAO CODE 918805) OSD CASE 9276-C

"FINANCIAL MANAGEMENT: ARMY LACKS ACCOUNTABILITY
AND CONTROL OVER EQUIPMENT"

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

ISSUES

ISSUE 1: The Continuing Balance System-Expanded Did Not Accurately Account For Army Equipment. The GAO concluded that, unless the accuracy of the Continuing Balance System-Expanded (System) is improved, the Army faces an increased risk of inappropriate equipment acquisition, distribution, and deployment decisions. The GAO further concluded that, despite the importance of the System and its known problems, Army headquarters officials had not placed accurate System reporting among its highest priorities at the time of the GAO review.

The GAO found that the System did not fulfill its intended role as the Army single consolidated equipment accountability system. The GAO determined that during the recent deployment to Southwest Asia, inaccurate System data impaired the ability of the Army to monitor equipment needed to carry out its mission. The GAO further determined that, although Army regulations include provisions that relax certain specified reporting and accountability requirements for equipment during war, most deployed units that deployed to Southwest Asia simply suspended all Continuing Balance System-Expanded reporting procedures--which was contrary to these regulations. The GAO also determined that inaccurate System data caused significant problems in secondary item management--major item inaccuracies in the System made forecasts of secondary items needed to support the forces seriously inaccurate. The GAO also found that the Army had to develop sustainment packages based on inaccurate System data.

The GAO noted that the Army, after being informed of the problems during the review, made plans to initiate actions to improve System accuracy. The GAO pointed out that, because the Army planned to initiate those actions after the audit work was completed, the GAO did not assess the implementation or effectiveness of the actions. (pp. 1-2, pp. 6-14/GAO Draft Report)

Now on pp. 4-9.

See comment 1.

DoD RESPONSE. Partially concur. The GAO indicated that Continuing Balance System-Expanded is an accountability system. That is incorrect. The System is an equipment visibility system that provides equipment visibility to a level above the accountable records. Accountability is a term that defines the legal responsibility of the accountable officers who maintain property books and stock record accounts. The System is an equipment visibility system that summarizes the accountable records. Furthermore, the System is not the "single consolidated" system in the Army, as the GAO states. There are separate systems for such items as missiles, classified communications security items, and ammunition.

See comment 3.

The draft report also stated Army regulations include provisions that relax accountability requirements for equipment damaged or destroyed during war. On the contrary, accountability may be reduced for all deployed equipment during wartime. That policy recognizes inherent operational conditions in a battle zone and was exercised during Operation Desert Storm. It is not surprising that many units did not report to the System during that period.

See comment 1.

The draft report further stated that the Army did not maintain reliable information on the types, quantities, and locations of its equipment. That statement appears to be based on the accuracy of the Continuing Balance System-Expanded. The statement does not acknowledge the existence of other equipment systems that maintain information on the types, quantities, and locations of Army equipment--and it implies that all of the information in the System is unreliable. That implication is not correct.

ISSUE 2: Unit Equipment Records Did Not Match Inventory On Hand. The GAO concluded that the data weaknesses will continue until the Army is able to modify its procedures and instill the discipline needed to have units accurately and promptly record equipment transactions. The GAO asserted that implementing the oversight program and improving the regulations governing the recoding of equipment transactions and conducting physical inventories are key measures to highlight the importance of unit equipment records.

The GAO found inaccuracies in unit equipment records, which are the basis for data sent to the System. The GAO noted that unit data often did not match the results of physical counts of equipment. The GAO determined that the mismatch resulted from units not recoding equipment transactions promptly or accurately. The GAO also

observed that current regulations governing the recording of equipment transactions and conducting inventories lacked specificity. The GAO concluded that, even if the Army improved these regulations, it had not adequately implemented a program to ensure that units had reliable equipment data. The GAO noted that Army regulations require commanders to periodically evaluate their compliance with equipment regulations through the implementation of the Command Supply Discipline Program. The GAO explained that the Program evaluations are designed to identify noncompliance with regulations and initiate prompt corrective action. The GAO found that, because many commanders had not implemented the program, many units were not being evaluated and corrective action was not being taken to ensure correct unit equipment records. (pp. 2-3, pp. 14-22/GAO Draft Report)

Now on pp. 1-2, 9-13.

DoD RESPONSE. Partially concur. The Department agrees that a lack of discipline in following supply procedures leads to inaccurate records in both the accountable property records and in the Continuing Balance System-Expanded. However, the Department does not agree that this occurred because of a lack of written guidance. Army regulations contain policy guidance, rather than detailed procedures. The applicable specific procedures the GAO contends should be changed are contained in Army pamphlets that already are sufficiently specific to direct commanders to fix the problem of receipts and inventories. An example is chapter 9 in the Department of the Army Pamphlet 710-2-1. That pamphlet and the applicable regulations are published in a one-volume "Unit Supply Update" available to all supply operations. The pamphlet update was last published in January 1992, but has been in existence and updated periodically since 1982.

See comment 4.

The Department agrees that not all Army organizations have complied with the Command Supply Discipline Program. That noncompliance resulted in the problems outlined in the draft report. The Command Supply Discipline Program is a compilation of existing regulatory requirements that provides checklists to commanders so they can easily evaluate supply programs and ensure compliance with supply regulations. The Army reemphasized the Command Supply Discipline Program during a meeting of its Division Commanders and the Army staff on June 28, 1993. Further, a message was sent to the field by the Army Staff emphasizing the importance of the Command Supply Discipline Program.

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RECOMMENDATIONS

- **RECOMMENDATION 1:** The GAO recommended that, to improve the Army Continuing Balance System-Expanded compatibility rate and the accuracy of unit equipment records, the Acting Secretary of the Army require the Office of the Deputy Chief of Staff for Logistics to place System accuracy, including compatibility rates and accounting for in-transit equipment, among the Command Logistics Review Program special interest items. (p. 22/GAO Draft Report)
- **DoD RESPONSE.** Partially concur. The Department agrees with adding compatibility rates and accuracy of unit equipment records and visibility for in-transit equipment to the Command Logistics Review Program as special interest items, but not the words "accounting for." The Army Continuing Balance System-Expanded is an equipment visibility system and not an accounting system. The items were added to the Program on April 28, 1993.
- **RECOMMENDATION 2:** The GAO recommended that, to improve the Army Continuing Balance System-Expanded compatibility rate and the accuracy of unit equipment records, the Acting Secretary of the Army revise regulations governing the recording of equipment transactions and physical inventory procedures to specifically require units to inspect equipment data plates to validate the type of equipment received and subsequently inventoried to ensure that equipment is recorded accurately and that errors are corrected during inventories. (p. 22/GAO Draft Report)
- **DoD RESPONSE.** Nonconcur. The Army has already documented, in sufficient detail, guidance for (1) recording equipment transactions and (2) conducting physical counts to validate the type of equipment received and to ensure that equipment is recorded accurately and errors are corrected as identified. Army policies, regulations, and procedures are published in pamphlets distributed to the unit level--and are extensive and complete. The problem is not the lack of written guidance, but compliance. Compliance will be emphasized as reflected in the DoD responses to Recommendations 1 and 3.

Now on p. 14.

See comment 4.

Now on p. 14.

See comment 4.

Now on p. 14.

See comment 4.

- **RECOMMENDATION 3:** The GAO recommended that, to improve the Army Continuing Balance System-Expanded compatibility rate and the accuracy of unit equipment records, the Acting Secretary of the Army direct commanders to implement the Command Supply Discipline Program and to require corrective action when evaluations identify non-compliance with equipment regulations. (p. 23/GAO Draft Report)
- **DoD RESPONSE.** Concur. The Army is taking positive steps to comply with this recommendation. The need for accurate records was emphasized during a meeting of Division Commanders and the Army Staff on June 28, 1993. Other actions will include the issuance of instructional messages and additional meetings between senior Army staff leaders and field organizations. Those actions are targeted for completion within the next 90 days.

The following are GAO's comments from the Department of Defense's letter dated August 5, 1993.

GAO Comments

1. We have revised our report to describe CBSX as an accounting system, as stated in Army regulations. In addition, the Background section clearly indicates that CBSX does not include information on missiles, ammunition, and classified communication security equipment. Finally, while DOD's response suggests the existence of other equipment systems that maintain information on the types, quantities, and locations of Army equipment, Army personnel could not identify other systems that report this information that were not derived from either CBSX or unit equipment records. As stated in the report, for the \$117 billion of equipment that is reported in CBSX, the type, location, and quantity data are unreliable and materially affect acquisition, distribution, and deployment decisions. Furthermore, our report points out that unit equipment records are unreliable.
2. We revised our report to reflect DOD's comment.
3. We revised the report to state that Army regulations relax certain specific accountability requirements during wartime but do not relax the CBSX reporting requirement. DOD did not dispute that the suspension caused the serious major and secondary item management problems described in this report.
4. Discussed in the Agency Comments and Our Evaluation section.

Locations Where Audit Work Was Conducted

During our review, we conducted work at the following locations:

- Army Headquarters, Pentagon, Washington, D.C.;
- Army Materiel Command Headquarters, Alexandria, Virginia;
- Army Aviation and Troop Support Command Headquarters, St. Louis, Missouri;
- Army Missile Command Headquarters, Redstone Arsenal, Alabama;
- Army Tank-Automotive Command Headquarters, Warren, Michigan;
- Systems Integration and Management Activity, St. Louis, Missouri, and Chambersburg, Pennsylvania;
- Red River Depot, Texarkana, Texas;
- V Army Corps, Frankfurt, Germany;
- 24th Infantry Division-Mechanized, Ft. Stewart, Georgia; and
- 1st Cavalry Division, Ft. Hood, Texas.

Major Contributors to This Report

**Accounting and
Information
Management Division,
Washington, D.C.**

Lisa G. Jacobson, Acting Associate Director

Dallas Regional Office

J. Paul Rodriguez, Jr., Assistant Director
Russell E. Hand, Auditor-in-Charge
David W. Frost, Evaluator
Donna Berryman, Evaluator

**Atlanta Regional
Office**

Sherril Y. Caldwell, Evaluator

European Office

Cherie M. Starck, Senior Evaluator
B. Patrick Hickey, Evaluator

**Philadelphia Regional
Office**

David B. Pasquarello, Senior Evaluator
Wayne J. Turowski, Computer Specialist

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